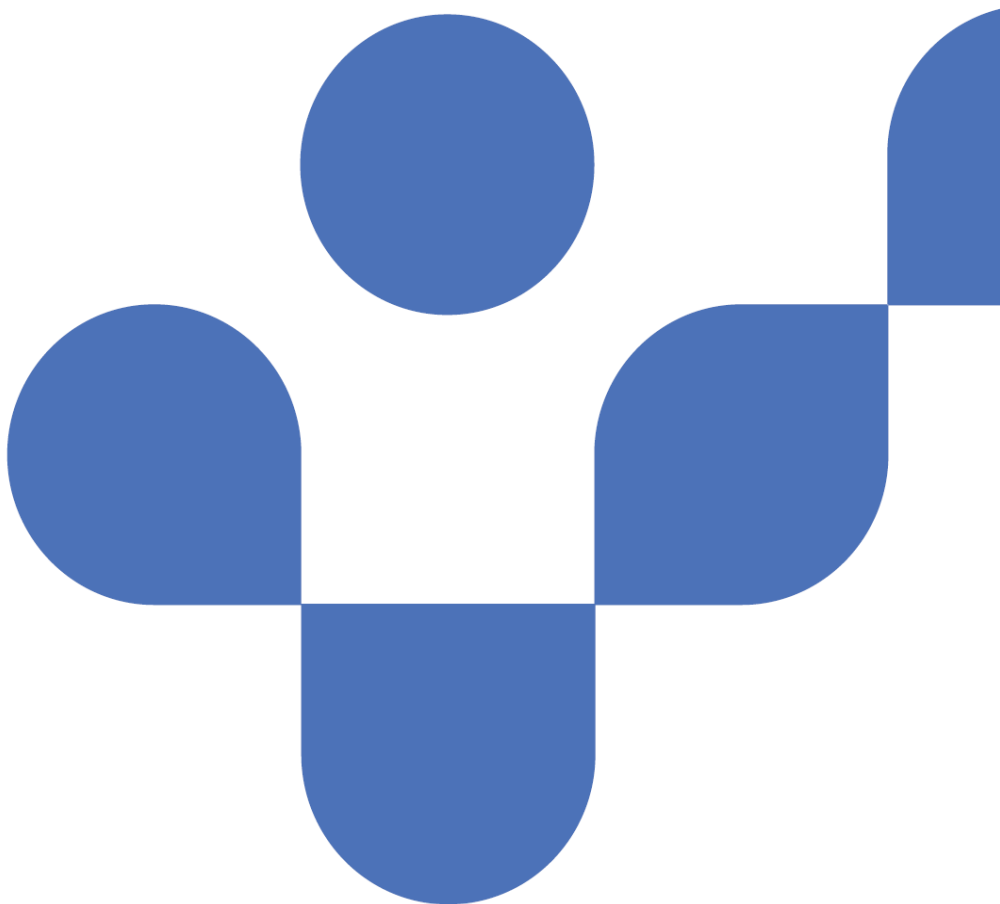


Invest 2035: The UK's Modern Industrial Strategy

A response by the Recruitment & Employment Confederation

November 2024



About the Recruitment & Employment Confederation

The [Recruitment & Employment Confederation](#) (REC) is the professional body for staffing, recruitment and talent businesses and professionals. We represent over 3,000 recruitment businesses and many thousands of individual recruiters. The UK recruitment sector places over a million people into permanent jobs each year and ensures that a further one million are working flexibly through temporary assignments on any given day. Through the opportunities we open up for workers, and the businesses we help grow, recruitment, staffing and talent businesses are a vital part of our world-leading Professional and Business Services sector.

Our industry is bigger in scale than either law or accountancy. Our members work as advisors, planners, and partners with business across all sectors in recruitment retention and productivity. As representatives for the sector, the REC is responding to this consultation on behalf of the recruitment industry as a whole.

Executive Summary

The REC considers worker productivity, skills development, and supply-side reform as critical to driving sustainable economic growth. Our response focuses on three main drivers of success for an Industrial Strategy: workforce and productivity, the centralised role of Professional and Business Services (PBS) across all sectors, and supply-side reforms. Key recommendations include undertaking a new Workplace Employment Relations Study (WERS), integrating workforce strategy across government, and reforming public procurement processes and immigration policies to ensure access to skilled workers across all sectors.

For the Industrial Strategy to succeed, we are clear that the labour market must operate at its best—dynamic and capable of harnessing the talent needed to fuel economic growth. This means ensuring that people with the skills the economy needs can access the right opportunities, supported by the foundational infrastructure that allows them to work effectively. Supply-side reforms, such as a supportive regulatory and tax environment, will provide businesses with the tools to capitalise on the opportunities in the Industrial Strategy. By closely aligning the recruitment and staffing sector with the Industrial Strategy and engaging industry experts, the government can drive high-growth sectors forward, alleviate workforce shortages, and secure a resilient, adaptable workforce to support the UK's economic transformation for future generations.

Introduction

Flexible working and the agency market play vital roles in connecting people from diverse backgrounds to employment, especially during economic change. Temporary and flexible roles offer essential entry points for older workers, individuals with health conditions, and caregivers, enabling them to contribute to the workforce in ways that suit their circumstances. With deep insight into the UK labour market, the recruitment and staffing sector is uniquely positioned to help employers meet workforce needs flexibly and effectively. Choice in work arrangements sustains high employment and helps firms adapt, building a resilient economy. As the world of work rapidly evolves post-pandemic, addressing the changing needs of workers—such as engagement, progression, flexibility, and fair pay—will be key to long-term prosperity.

The recruitment and staffing industry is a vital part of the UK's Professional and Business Services (PBS) sector, and we welcome PBS being chosen as one of the growth sectors within the Industrial Strategy. We strongly support the focus on the labour market and skills development as central to the government's growth mission. As the UK prepares for a decade of significant economic transformation, this strategy must provide the certainty businesses need to invest, grow, and create high-quality jobs.

Rather than addressing each question, in the consultation, in turn—given some are not directly relevant to our sector—we have chosen to provide commentary on three overarching themes:

1. [Placing workforce and productivity at the heart of a strong Industrial Strategy](#)
2. [The role of Professional and Business Services \(PBS\) in driving UK economic success across all sectors](#)
3. [Embracing supply-side reforms as a catalyst for economic growth](#)

Under each theme, we have made a series of recommendations that we feel will be central to the success of the Industrial Strategy. With our extensive experience of the UK workforce and the broader staffing agency sector, the REC is uniquely positioned to offer valuable insights and provide engagement with our member businesses who are in turn connected to UK PLC across all sectors throughout the UK. We look forward to engaging with DBT and other government stakeholders on the initiatives proposed in the consultation.

Placing workforce and productivity at the heart of a strong Industrial Strategy

Our recommendations:

- *Implement a Workplace Employment Relations Study (WERS) to provide essential insights into current labour market dynamics.*
- *Commission an independent Workforce Plan with authority to align labour market policies across the government into one body.*
- *Ensure Skills England is aligned with the Industrial Strategy, to address skills and labour market demand.*

The Industrial Strategy's vision is to drive growth while fostering a sustainable, resilient, and regionally balanced economy. Achieving these ambitions hinges not only on technological advances but also on cultivating a skilled and adaptable workforce. The recruitment and staffing industry plays a vital role in this vision by providing the talent pipeline businesses need to thrive.

The REC's vision for a robust Industrial Strategy places the PBS at its core, recognising the sector's role as an engine of economic growth. We welcome this focus and emphasise the recruitment industry's critical contribution to PBS in connecting individuals to jobs and businesses to talent. We have identified cross-cutting themes essential to the strategy's success, with workforce and productivity as a central pillar. This includes prioritising skills development, organisational design, and British businesses' responsibility to invest in their people. A cohesive approach to reform of these areas will enhance economic resilience, support sustainable growth, and ensure the UK remains globally competitive.

As the Government prioritises investment in critical areas—including £975 million for aerospace R&D, over £2 billion for the automotive sector, and up to £520 million for life sciences innovation—the availability of skilled talent will be essential to capitalising on these opportunities. Ensuring the labour market operates at its full potential is vital to maintaining the UK's competitive edge on the global stage, and recruiters are central to achieving these.

A joined-up government approach to boost workforce productivity

With the labour market undergoing significant transformation and facing unprecedented challenges, REC members are uniquely positioned to provide expert advice on maximising workforce productivity. As labour market specialists, they understand workforce needs across sectors, and can offer insights from both employer and employee perspectives. This makes them invaluable partners in helping to address skills shortages, tackle regional disparities, and unlock the potential of the UK's workforce. Modes of production have changed rapidly over the last few years, and this needs to be recognised in an Industrial Strategy that works for the modern labour market. People need very different skillsets than they did even 5 years ago as technology continues to progress, and jobs need to be designed with this in mind moving forward.

REC members stand ready to work with civil servants, sharing data on hard-to-fill vacancies and sector-specific challenges, to ensure the labour market is equipped to meet current and future demands. Undertaking a new Workplace Employment Relations Study (WERS) will provide essential insights into these dynamics. The last WERS study, conducted over a decade ago, delivered vital evidence on how the labour market operates, including employee engagement and workplace performance. Updating this research will ensure workforce productivity strategies are informed by today's realities rather than outdated assumptions.

A cohesive approach to boosting workforce productivity requires stronger coordination across government departments, especially across the Department for Education (DfE) and the Department for Work and Pensions (DWP). Currently, fragmented policies spread across at least five departments lead to disjointed interventions. This has been clear in Apprenticeships policy, which is divided between the DfE, responsible for strategy and delivery, and the Treasury (HMT), which oversees the Apprenticeship Levy. This split creates a lack of alignment in strategy, contributing to challenges such as the 33% decline in apprenticeship starts since the introduction of the levy—a clear illustration of the consequences when policies are not well aligned across government departments.

A cohesive workforce strategy that places people planning at the heart of the UK's growth strategy—spanning skills, immigration, regional investment, and labour market activation—would create the dynamic labour market needed to fuel growth. Situating this work within the Cabinet Office or an independent commission that collaborates closely with businesses to monitor

progress, will ensure government policies remain agile and in line with the needs of employers. A commitment to facilitating this long-term strategy will align with the UK's economic ambitions, strengthening the labour market and enhancing productivity across sectors. This approach to delivering a workforce strategy in line with business needs across all sectors should encourage private investment and provide a sustainable, long-term framework for growth that is resilient to shifts in political leadership. Recruitment industry professionals are well-placed to contribute to this effort, given their insights into employer needs, skills demands, regional workforce variations, and strategies for labour market activation.

Skills development

Our industry can offer insights to help align training programmes closely with market realities, ensuring that the UK's workforce remains competitive, responsive to employer needs and addresses the productivity challenges we face. The role of Skills England in building an agile, demand-driven skills system will also be crucial. Working alongside the Industrial Strategy Advisory Council (ISAC), Skills England can bridge the gap between industry needs and the education system to shape a skills agenda that reflects both current demands and anticipated growth areas.

The government's planned Growth and Skills Levy, developed in consultation with employers and trade unions, is a key example of the partnership needed to boost workforce productivity and reduce inactivity. Temporary and flexible work is crucial in helping underrepresented groups, including older workers, those with long-term health conditions, and younger workers, access the labour market. With guidance from ISAC and Skills England, the Growth and Skills Levy can drive targeted training that meets employer demand, helping businesses find the talent they need to compete globally. Prioritising shorter and modular training alongside traditional apprenticeships will ensure that more workers, including temporary workers, can benefit. This will help fill vacancies quickly, support those who are economically inactive wishing to enter the workforce, and create a diverse, skilled workforce. Shorter modular courses will also help people that need to update skills for their existing roles - for example enhancing digital skills where AI is being adopted or learning how to use a new green technology.

The role of Professional and Business Services (PBS) in driving UK economic success across all sectors

Our recommendations:

- *Reform public sector procurement to align with the Industrial Strategy to optimise value and efficiency*

The UK's PBS sector is a cornerstone of the economy, operating with a comparative advantage in a global market valued at \$1.9 trillion. As highlighted in [Invest 2035](#), PBS is a critical sector in its own right and an enabler of growth across other industries, supporting businesses to raise finance, scale up, export, and invest.

The recruitment industry is a fundamental part of the PBS and at the heart of driving the broader UK economy, ensuring businesses across sectors have access to the talent needed to meet their goals. Recruitment agencies are uniquely positioned to bridge the gap between employer needs and workforce capabilities and address the labour market challenges outlined in *Invest 2035*. Recruiters directly support the UK's economic ambitions by providing the talent pipeline required to fill roles in growth areas such as AI, green technologies, and professional services. They are also instrumental in enabling foundational sectors—including manufacturing, logistics, and retail—to maintain the workforce necessary to support PBS and the broader economy. For example, the freight sector—encompassing logistics, warehousing, and aviation—is essential to commerce and supports other sectors like retail and health, which rely on robust supply chains to operate. Underpinning these supply chains means having the right workforce. Without the talent to fuel these foundational sectors, many growth opportunities and the very foundations of our economy risk being undermined by labour market constraints.

Supporting the NHS in developing sustainable public procurement frameworks

A good example of our industry's expertise is the vital role it plays in supporting the NHS. Health and Social Care—particularly the NHS—represents a crucial area where workforce reform and refined procurement models are urgently needed. This is especially critical given the sector's fundamental role in safeguarding public health, which in turn bolsters a more robust and

productive workforce across the UK. As an industry body, our membership includes nearly 500 recruitment agencies supplying clinical and non-clinical health and social care professionals to the NHS, local authorities, and the private sector. Our members, ranging from the NHS's largest staffing partners to hundreds of SMEs, are committed to REC's compliance standards and a dedication to providing continuous staffing solutions that meet the needs of the NHS and the wider Health and Social Care sector.

The negative impact of ineffective workforce management cannot be overstated, but that is what we currently have. A well-structured, forward-looking workforce strategy across Health and Social Care settings is essential, and our industry can offer its expertise in designing and implementing solutions that efficiently use taxpayer money. Existing NHS procurement frameworks require significant reform. To enhance the effectiveness of the Industrial strategy, the government should prioritise reforming public sector procurement processes as part of plans to reduce waiting lists, ease the burden on existing staff and improving the rates of people economically inactive because of poor health.

Current price caps have led to a fragmented and unsustainable market, with suppliers expected to fill critical roles at unviable rates, rising off-framework costs, and inflated bank staffing expenses. Consequently, the NHS often spends more on diminished returns. To address these issues, the government should collaborate with the REC and our membership to design a market structure for temporary public service roles that prioritises value for taxpayers and service users. Reforms of this nature would signal the Industrial strategy's commitment to a resilient, sustainable public sector.

Embracing supply-side reforms as a catalyst for economic growth

Our recommendations:

- *Use consultation periods around employment reforms to understand the nuances of the agency employment model and the existing protections it provides for agency workers which override the need for them to be subject to proposed rules on ending exploitative Zero Hours Contracts.*

- *Reconsider the increases to the Skilled Worker Visa Salary Thresholds to strengthen the UK's global talent pipeline.*
- *Conduct an impact assessment of the Health and Social Care Visa Route. This will enable us to see its impacts on the Social Care workforce.*
- *For the government to conduct regular reviews of the Immigration Salary List (ISL) with industry input for more responsive and holistic workforce assessments.*
- *Adopt a verifiable digital credential system, such as Velocity, to streamline right-to-work checks, driving licence verification, and skills accreditation. This would expedite hiring processes, reduce costs for businesses, enhance employee protections, and lower government administrative burdens—all without requiring direct government ownership or funding.*

Regulatory changes and fiscal policies, such as increases in National Insurance Employer Contributions, the Living Wage, and planned reforms in the Employment Rights Bill – including changes to Statutory Sick Pay (SSP) and restrictions on zero-hours contracts – risk stifling investment and innovation essential for economic growth. While well-intentioned, these measures are not always aligned with boosting productivity or fostering business expansion. Proposals to limit zero-hours contracts, for example, fail to recognise the distinct nature of agency work. Agency workers actively choose this flexible arrangement, which differs fundamentally from direct-hire zero hours contracts (ZHCs). Employment businesses have a financial incentive to keep agency workers on assignments, ensuring they can work sufficient hours. Proposals around limiting the use of zero hours contracts could be particularly damaging for the UK labour market as a whole, further hindering and preventing the economic growth the government is trying to boost by preventing businesses from making appropriate hiring decisions.

Additional costs associated with some of these reforms will lead to reduced hiring capacity, further compounding existing labour market issues the UK. For the government's Industrial Strategy to succeed, it must embrace supply-side reform as a core mechanism for stimulating economic growth. A tax and regulatory environment that places increasing burdens on businesses, without offering commensurate support, risks hampering the very growth the strategy seeks to encourage.

Business leaders are increasingly concerned that rising costs, such as higher National Insurance Employer Contributions, are straining operations and hindering investment, expansion, and innovation. If unaddressed, these pressures risk deterring investment and undermining the Industrial Strategy's goals of boosting productivity and economic growth. Direct engagement with industry stakeholders is essential to ensure the strategy remains a practical framework that supports business growth in a competitive global market.

Supply-side reform and deregulation also apply in the context of immigration, enabling businesses to have access to the right types of talent internationally. Effective collaboration among key stakeholders—such as the ISAC, the Migration Advisory Committee (MAC), Skills England, and the Department for Work and Pensions (DWP), as the Government has signalled—will support a more holistic and focused approach to tackling labour shortages.

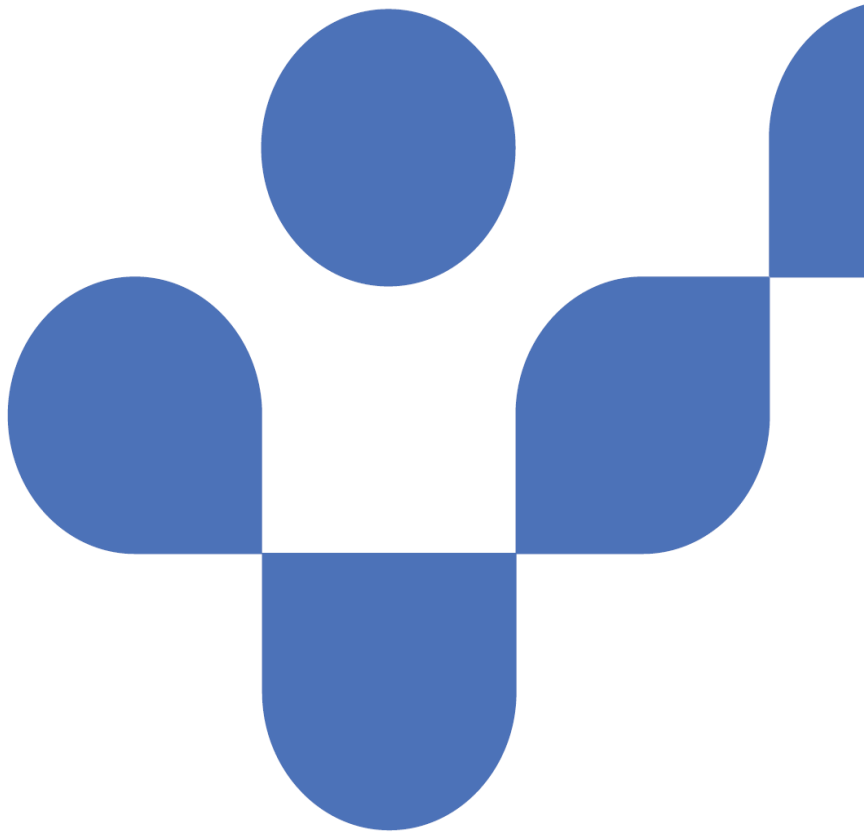
By formally incorporating immigration as a strategic element, the UK can address critical labour gaps and keep the Industrial Strategy flexible to meet current labour needs. Reducing the high costs of sponsoring work visas and extending visas from two to at least five years would make it easier for employers to tackle acute labour shortages where domestic talent doesn't exist. Additionally, the Skilled Worker Visa's salary thresholds should be revisited to support the strategy's goals of fostering growth. High thresholds risk deterring international talent and may inadvertently signal exclusivity, which could compound existing labour and skill shortages. Such an approach would also attract essential talent to sectors experiencing the most severe shortages.

An impact assessment should be conducted on the recent limitation of dependents for health and social care visa holders. Given the labour shortages already affecting this sector, these restrictions may further impede the recruitment of social care professionals. Evidence-based policy adjustments would support the Industrial Strategy's objective of sustaining a robust workforce across essential sectors.

Finally, the Industrial Strategy should embed a structured, collaborative process for regular reviews of the Immigration Salary List (ISL) and salary thresholds. Reviews conducted annually, in close consultation with businesses, industry bodies, and other stakeholders, would allow the UK to proactively respond to changing labour market conditions. Regular updates would ensure that the Strategy remains adaptable, capable of addressing labour demands in critical sectors, and aligned with the UK's long-term economic stability and growth goals.

Addressing exploitation and economic inactivity whilst boosting growth: Verifiable digital credentials

The adoption of verifiable credential protocols, such as Velocity, could revolutionise the way right-to-work checks, driving licence verification, and skills accreditation are conducted. By enabling employers to confirm eligibility to work and other credentials rapidly, such a system would significantly reduce the time and costs associated with hiring processes for businesses, while expediting skilled candidates' entry into the workforce. Importantly, this innovation could be implemented at zero cost to the government, requiring only senior sponsorship to progress. The government could support this initiative without needing to manage or own the underlying technology, as issuers are compensated by users. The Recruitment and Employment Confederation (REC) has collaborated with Velocity and views this approach as transformative for enhancing employee protections, reducing administrative burdens, and lowering government service costs. With the technology already in place, this represents a quick, effective win for the UK labour market.



For more information on this submission, please contact:

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The REC is the voice of the recruitment industry, speaking up for great recruiters. We drive standards and empower recruitment businesses to build better futures for their candidates and themselves. We are champions of an industry which is fundamental to the strength of the UK economy. Find out more about the Recruitment & Employment Confederation at www.rec.uk.com.